

Message Text

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APPROVED BY: NEA:LBLAINGEN

TREAS:HLEE

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FM SECSTATE WASHDC

TO AMEMBASSY NEW DELHI IMMEDIATE

USMISSION USUN NEW YORK IMMEDIATE IMMEDIATE

C O N F I D E N T I A L STATE 236175

E.O.11652: GDS

TAGS: EFIN, IN

SUBJECT: RUPEES: MOV

REF: NEW DELHI 13991

FOR MOYNIHAN FROM VOLCKER

USUN, PLEASE PASS MOYNIHAN AT PARKLANE HOTEL

1. WE HAVE A SMALL PROBLEM. AT THIS POINT, I KNOW MORE ABOUT RUPEES THAN I CARE TO, BUT EVEN NOW I CANNOT COMPREHEND THE RATIONALE OF THE PROPOSED AVERAGING METHOD USED FOR THE MOV CALCULATION. I SIMPLY TRUST THAT YOU, THE INDIANS, AND JON GAASERUD ARE SATISFIED THAT IT WORKS EQUITABLY EVEN THOUGH IT SEEMS TO ME TO MODERATELY DILUTE THE INTENT OF MOV.

2. SO FAR AS TWO-WAY MOV IS CONCERNED, OUR PROBLEM IS MAINLY PUBLIC DEFENSIBILITY, BUT ALSO TO BE ASSURED THAT THE CONCEIVABLE EVENTUALITY THAT PROFLIGACY BY THE US RESULTING IN DOLLAR DEVALUATION SHOULD NOT DILUTE OUR POSITION IN RUPEES. THE CONTINGENCY OF
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DOLLAR DEPRECIATION VIS A VIS THE RUPEE SEEMS

UNLIKELY BUT SUPPOSE IT HAPPENED. IN YOUR PROPOSAL WE WOULD HAVE TO REPORT PUBLICLY TO THE CONGRESS A DECLINE IN FOREIGN CURRENCY HOLDINGS ON TOP OF THE DOLS 2 BILLION EQUIVALENT OR SO GRANTED TO THE GOI

BY THE BASIC AGREEMENT. THIS WOULD JEOPARDIZE OUR FUTURE MANEUVERABILITY-GIVEN THAT SENATOR BYRD ALMOST SUCCEEDED IN TAKING ALL OUR DISCRETION AWAY THIS WEEK (AND MAY VERY WELL SUCCEED IN THE NEXT WEEK OR TWO). IT MIGHT EVEN RESULT IN LESS REAL VALUE THAN WE WOULD OTHERWISE HAVE.

3. ONE-WAY MOV IS TYPICAL OF AGREEMENTS OF THIS SORT TO PROTECT THE CREDITOR. FOR EXAMPLE, IN THE STERLING BALANCE AGREEMENT, THE CREDITORS RPT CREDITORS BENEFIT FROM A ONE-WAY MOV, A POINT WHICH WOULD NOT BE LOST ON THE GOI.

4. BE THAT AS IT MAY, THE PRESENT PROBLEM COULD BE MOST EASILY RESOLVED, IT SEEMS TO ME, BY SIMPLY PERMITTING US, TO DENOMINATE THIS PORTION OF OUR RUPEE BALANCE IN DOLLARS. THIS WOULD PROVIDE TWO-WAY MOV FROM THE INDIAN STAND-POINT ON AN INITIAL STOCK OF DOLS 500 MILLION WORTH OF RUPEES AND WOULD STATE OUR CLAIMS SIMPLY AND CORRECTLY FROM OUR STAND-POINT. WE TAKE THE RISK OF A REAL LOSS IF IT TURNED OUT THAT WE HAD A DEPRECIATING CURRENCY.

5. IF THAT IS NOT POSSIBLE, I COULD ACCEPT RUPEE DENOMINATION SO LONG AS THE RUPEE AMOUNT COULD NOT DECLINE BELOW THE ORIGINAL AMOUNT (LESS THE RUPEES ACTUALLY SPENT), AND SO LONG AS ADJUSTMENTS ARE MADE TO THE STOCK OF PROTECTED RUPEES. IN OTHER WORDS, THE MOV WOULD BE TWO-WAY WITH A FLOOR SO THAT WE COULD NOT BE A POSITION OF BEING ACCUSED OF "GIVING AWAY" MORE THAN INDICATED IN THE BASIC AGREEMENT. IF THE RUPEE DEVALUED AND THEN REVALUED BACK ALL OR PART OF THE WAY, THE INDIANS WOULD HAVE FULL PROTECTION.

6. WE ARE DRAFTING PRECISE LANGUAGE TO COVER BOTH OF
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ABOVE POSSIBILITIES AND WILL HAVE IT FOR YOU BY COB, DECEMBER 3, WASHINGTON TIME. WOULD APPRECIATE YOUR JUDGMENT BY OPENING OF BUSINESS HERE DECEMBER 3, AS TO THE LIKELY INDIAN REACTION TO TWO-WAY DOLLAR-DENOMINATED MOV WITHOUT A FLOOR AS DESCRIBED PARA 4 ABOVE. PORTER

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